Appendix F
Business Plan

The business plan components contained in this section are suggested for CDBG-ED applications involving loans, grants, or public improvements directly assisting for-profit or nonprofit entities. The level of detail and length of business plan should be relative to the type of businesses, market served, and number of employees. Business plans should provide a clear description of what the business does and what direction the business wants to take.

Each business plan must contain sufficient information for Commerce to obtain an adequate understanding of the business to be assisted, including products or services, estimated market potential, management experience of principals, current financial position, and details of the proposed venture.

All business plan information and financial exhibits will be considered confidential, for evaluation purposes only, and will not, except as required by law, be provided to any third person, firm, corporation, or public entity without the express written consent of the business. Commerce encourages businesses to execute a non-disclosure agreement with Commerce and submit a subsequent affidavit outlining parts of the CDBG-ED application it prefers to be held confidential. Assisted businesses are encouraged to work with the program when executing this agreement. Applicants may use the template provided at the end of this appendix.

The business plan must include the following elements and must provide sufficient detail for adequate analysis:

Business Description
Include a description of the company or enterprise and an explanation of the products or services offered.

Management Information
Provide the names, titles, and resumes of each principal to be responsible for the management of the business.

Market Analysis
Discuss the present or proposed market area and share, with future projections, and provide an explanation of how the information was developed (for example, market surveys). Document any identified potential markets (for example, contracts, letters, or other evidence of interest in the product(s) by potential buyers or distributors), especially if sales projections show annual increases exceeding 25%.

Sources and Uses of All Funding
This section of the application should discuss the source, use, and terms of all funds to be included in the project. Use the form to list the sources and uses of all funding for the project. A description of all aspects of the proposed assistance (i.e., loan terms, security, etc.), and the rationale for each must be included with the application. A narrative explanation/justification for the administrative portion of the budget must be attached. The Sources and Uses of Funds form can be found at the end of Appendix I.

Financial Exhibits
The business must be able to show that projected cash flow will be sufficient to cover projected debt service and that a positive net worth can be attained. The projections must include a narrative explanation of how the figures and assumptions were derived with special emphasis on any changes in major

assumptions from existing conditions (i.e., changes in cost of goods sold and general administrative expenses as a percentage of sales, or if sales increases exceed 25% annually). Special care should be taken to include increased labor costs related to achieving the hiring goals contained in the hiring and training plan. NOTE: Financial information is required for all projects, including projects that are only for employee training.

The business plan must include the following financial exhibits:

1. *Financial Statements:*

For an existing business, provide financial statements for the two most recent years of operation to include the following:

- Balance Sheets
- Profit and Loss Statements
- Cash Flow Statements

It is suggested that CPA-prepared year-end financial statements be submitted. Internally prepared interim financial statements will also be accepted. If internally prepared financial statements do not appear accurate or verifiable, the MDOC will require additional documentation before a funding decision is made.

The business owner or officer of the business must sign all financial information. Financial statements must also include a current Aging of Accounts Receivable and Payable. There should not be significant gaps (not more than 90 days) between the historical statements and the projected statements. The projections should use the same fiscal year periods as the historical financial statements. Applications that contain appropriate, updated, accurate financial information can be processed much more quickly than incomplete applications that require Department requests for additional information.

2. *Projections:*

Provide the following projections for two years:

- *Balance Sheets*
- *Profit and Loss Statements*
- *Cash Flow Statements*

Earnings projections must include a projected monthly cash flow analysis for at least one year and until the break-even point is projected to be reached by the business. For a business that experiences regular or occasional cyclical variations in cash flow, provide a narrative explanation of the reason(s) for the occurrence of the cycles. Also, explain the effect, if any, on the business's ability to meet its debt obligations identified in the existing and projected debt schedules.

3. *Debt Schedule:*

Provide descriptions of all existing and projected debts and lenders, annual debt service amounts, and any related loan requirements. Financial statements should include current maturities of long-term debt and adjusted principal balances. <u>All debt sources must be identified independently</u> and not combined into one long-term debt number on the balance sheet. Principal and interest payments for at least two years should be included for all sources.

4. *Working Capital Needs:*

Provide information on working capital needs and verify through cash flow projections, explaining changes in inventory and receivables.

5. *Requirements for Business Owners with a 20% or Greater Ownership:*

Personal Financial Statements and tax returns are required for all owners with 20% or more ownership in the business to be assisted. The Department also requires personal or corporate income tax returns for all affiliated businesses. Personal guarantees will be required by owners with a 20% or more ownership at the discretion of the Department.

Private and Public Sector Commitments

Applicants must provide firm commitment letters from any public, non-profit or private sector lenders or investors involved in the project. Such commitments should be binding, contingent only upon receipt of CDBG-ED funds. All terms and conditions that apply to each funding source must be submitted as part of the application. Applications that include a loan guarantee from the Small Business Administration or USDA Rural Development must include the letter of authorization from the appropriate agency that contains the terms and conditions that apply to the loan. Terms and conditions for proposed debentures must be included. Evidence should include resolutions passed by the local governing body if applicable. Projects that include matching funds from the Economic Development Administration (EDA) for public facilities in support of economic development may be reviewed and approved contingent on EDA approval if necessary to meet EDA requirements.

Letters of commitment from investors, owners and/or others providing assistance must be submitted with the application and must:

- Be on a letterhead of the firm and signed by an official of the firm authorized to commit the organization;
- Specify the nature of the commitment (e.g., the amount of private commitment, amount of borrower's commitment, type and size of the project);
- Letters of commitment from private financing institutions must specify the amount and type (for example, interim construction financing) of the loan being provided for the specific activity to be undertaken. The commitment should be binding, contingent only upon receipt of CDBG-ED funds.